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SUBJECT: ROCKY PATEL DISCUSSES THE HONDURAN CIGAR INDUSTRY

REF: A. STATE 54356
[1](#)B. TEGUCIGALPA 206

[1](#)1. (SBU) SUMMARY: American cigar manufacturer Rocky Patel discussed the Honduran business environment for cigar manufacturers at his El Paraiso factory on December 1. According to Patel, sales of his cigars are up about 15% this year despite an industry-wide drop in sales of about 22% for the year due to the global economic crisis. Patel expects to export a total of 19 million hand-rolled cigars in 2009, primarily to the U.S. He chose El Paraiso because of its existing experienced labor force and lower labor costs, but became worried in January when Zelaya initially proposed a 60% increase to the minimum wage. If Honduran cigar manufacturers had not been successful at obtaining an exemption, they would have raised the retail price of cigars, leading to decreased sales. Eventually they would have had to scale back their workforces, leading to a significant increase in unemployment and possibly wiping out the industry in Honduras. Patel said that weak intellectual property laws were a drawback to doing business in Honduras, adding that he had not patented his production process out of fear that competitors would steal it without consequences. Tobacco and manufactured tobacco products account for 4.1% of Honduras' total exports, making it the country's sixth largest export. As long as Patel and other international cigar manufacturers continue to feel that the Honduran government is creating a business climate in which they can succeed, Danli will remain a capital in the cigar world. END SUMMARY.

[1](#)2. (U) Rocky Patel, President and CEO of Rocky Patel Premium Cigars, discussed the business environment facing his business in Honduras and provided EconOff and other Embassy officers with a tour of his El Paraiso factory on December 1. (Note: All activities were compliant with guidance provided in ref A regarding engagement with producers of tobacco products.).

Honduran Factory Keeps 'em Rolling

[1](#)3. (U) Rocky Patel Premium Cigars, headquartered in Naples, Florida, began manufacturing its cigars in Honduras in 1996. Patel said he chose the Danli, El Paraiso region because of its existing experienced labor force and low labor costs. Rocky Patel employs approximately 1200 people in the factory, 70% of whom are single mothers, and about another 800 people in the warehouses. The 100,000 square foot facility was built ten years ago by another U.S. firm, Swisher, in accordance with U.S. building codes. Patel leases it from Nestor Plasencia, the largest tobacco grower in Central America. Patel said that the facility produces on average 65,000 hand-rolled cigars a day and is slated to export 19 million cigars in 2009, primarily to the U.S.

[1](#)4. (U) According to Patel, worldwide sales in the cigar

industry are down about 22% for the year due to the global economic crisis. However, sales of Rocky Patel Premium Cigars are up about 15% for the year, following steady growth from 2003 to 2008. In response, Patel expanded his Honduran workforce when others were scaling back. He believes that that this mitigated severe increases in unemployment in the Danli region.

15. (U) The Rocky Patel factory was not impacted by any of the curfews imposed by the de facto regime following the June 28 coup. The factory only employs one daytime shift and the majority of the curfews applied only during the evening and overnight hours. On the few days when there were daytime curfews, the factory obtained special permission from the local military authorities to continue operations and used a company bus to shuttle employees to and from work.

Minimum wage increase could have snuffed out industry

16. (SBU) Patel said that he was very pleased overall with his decision to manufacture his cigars in Honduras. However, he worried when Zelaya initially proposed a 60% increase to the minimum wage in January. Patel explained that the export-oriented cigar factories, unlike the apparel maquilas, were not initially exempt from the wage hike. Patel and other producers in the region banded together and lobbied for, and were later granted, exemption status similar to that obtained by the maquilas. Patel added that if they had not been successful, he would have passed the production cost increase to consumers and raised the retail price of his cigars by 30% to 40%. He believes that this would have significantly decreased sales and that he would have had to scale back his workforce as a result. Patel stated that the other producers in the region would have been equally impacted and that the wage hike would have been devastating to employment in the region. He postulated that it could even have wiped out the industry if producers had shifted production to another country with lower labor costs. Patel said he hoped that the newly elected Lobo administration would be pro-business.

Weak IPR laws a burning issue

17. (SBU) Weak protection of intellectual property rights (IPR) was the one shortcoming Patel mentioned with regard to doing business in Honduras. Patel specifically did not patent his production process because by doing so he would have had to divulge his trade secrets. He expressed concern that competitors would steal without consequences because of insufficient and ineffective Honduran IPR laws.

18. (SBU) Patel provided an example of an employee who was in charge of production (and thus had knowledge of the firm's recipes) but later left the company to break out on his own. Patel said that the first two cigars produced by this ex-employee's newly established firm were exact replicas of cigars produced by Rocky Patel. However, Patel said that he was unable to prosecute this individual in the local judicial system. (Note: Prior to becoming a cigar manufacturer, Patel worked as an attorney).

Patel seeks to light up young minds

19. (U) Patel recently started a foundation that has begun building a school for 100 homeless children from the Danli area. The school will not only educate these at-risk youth but also provide them with lodging, clothing, and food. Patel expressed hope that this would be the first of many projects that his foundation would sponsor to help the local community.

Planting new seeds

¶10. (SBU) Patel said that he plans to expand his company beyond cigars into a "lifestyle" company. The first products would include scotch, humidors, and Tommy Bahamas-style shirts. He told EconOff that he was considering manufacturing the shirts and humidors in China. Asked whether he had considered locating the manufacturing operation in Honduras, given his frequent visits here, he said that he did not know how to make local contacts in those industries. EconOff explained that the Foreign Commercial Service (FCS) may be able to help via its Gold Key Program. Patel was enthusiastic about meeting with FCS during his next trip to Honduras.

Comment

¶11. (SBU) Danli is considered to be the cigar capital of Honduras. According to the UN COMTRADE Database, tobacco and manufactured tobacco products account for 4.1% of Honduras' total exports, ranking it the country's sixth largest export.

Rocky Patel is one of the biggest players in the Honduran tobacco industry, directly employing 2% of the Danli area population in his factory and warehouses and indirectly employing numerous more who work in the tobacco fields to replenish his warehouse stocks. As long as Patel and other international cigar manufacturers continue to feel that the Honduran government is creating a business climate in which they can succeed, Danli will remain a capital in the cigar world.

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